Sub-Saharan Africa (SSA) Eurobonds: FY'2020 Performance

A. Background

According to the International Monetary Fund's (IMF) World Economic Outlook (WEO) Update October 2020, the global economy is projected to have contracted at a rate of (4.4%) in 2020, 7.2% points lower than 2019's growth, which came in at 2.8%, but 0.5% points higher than their initial outlook of (4.9%) in June 2020, highlighting that the global economy is on a gradual road to recovery in the wake of approvals for COVID-19 vaccines. The global recession, caused by declined consumption globally due to loss of jobs and reductions in disposable income, depressed mobility in terms of both domestic and international travel and significant contraction in global trade, led most economies to postpone fiscal consolidation strategies and re-direct funds to fight COVID-19. Furthermore, the depreciation of local currencies has made it more expensive for countries to settle their debt obligations, leading to wider fiscal deficits.

2020 has been a subdued year in the Sub-Saharan Eurobond market. The region raised a total of USD 5.2 bn through various Eurobond issues, an 8.8% reduction compared to USD 5.7 bn raised in 2019, with Ivory Coast being the only Sub-Saharan country to issue a Eurobond since Q1'2020. The reduction in regional Eurobond issues is attributed to the global pandemic, which prompted institutional investors to dump risky assets in favour of safe havens and subsequently cause yields to rise, making it expensive for regional economies to access the market, coupled with the depreciation of local currencies in the region which made debt servicing costs more expensive. According to Moody's Research, emerging market Eurobond volumes are projected to reach an all-time high in 2020, with emerging debt issuers already bringing in a total of USD 488.0 bn of Eurobonds to the market between Q1'2020 and Q3'2020, compared to USD 590.0 bn in FY'2019. 2020 also saw Zambia become the first nation in the region to default on its debt service obligations of a USD 42.5 mn Eurobond coupon in November 2020.

This note analyses Sub-Saharan Africa's (SSA) Eurobond performance in FY'2020 painting a picture of the investor sentiments, risk tolerance, and an outlook on yield performance. The analysis will be broken down as follows:

I. Background of Eurobonds in Sub Saharan Africa in FY'2020,
II. Eurobond Performance in Sub-Saharan Africa,
III. Outlook on SSA Eurobonds.

Section I. Background of Eurobonds Issued in Sub Saharan Africa

Collectively, FY'2020 saw the Sub-Saharan Region raise USD 5.2 bn through Eurobond issues, an 8.8% decline from USD 5.7 bn raised in 2019. Notably, no new Eurobond was issued in Q2'2020 and Q3'2020 given the unfavourable nature of global financial markets at the time, which led to an increase in the yields of Sub-Saharan Eurobond issues as investors attached a higher risk premium to the region and demanded compensation for the extra risk emanating from the uncertainty brought about by the global pandemic. This also reflected in the lowering of a number of the region's countries credit ratings. For instance, Zambia and Angola were downgraded twice in 2020, with Zambia being downgraded by Fitch Ratings from 'CCC' to 'CC' in April before being downgraded further to 'C' in September. Angola, on the other hand, was downgraded by Fitch Ratings to 'B-' from 'B' with a stable outlook in May before being downgraded further to 'CCC'. It is key to note that Fitch typically does not assign outlooks to sovereigns with a rating of 'CCC' or below. The lowered credit ratings indicate that the countries have very high levels of credit risk. Of the Sub-Saharan sovereigns, only Ivory Coast is on a positive outlook, signifying the region's dampening prospects and the associated increased cost of credit and difficulty accessing capital markets. The difficulty to access the capital markets in 2020 despite capital flows to Emerging Markets and Developing Economies (EMDEs) has also been attributable to the high levels of existing loans taken up by African countries, which raised concerns over the debt sustainability of the economies in the region. According to the World Bank's latest Africa's Pulse October issue, most Sub-Saharan countries will emerge from the COVID-19 crisis with historically large budget deficits, with fiscal deficits widening by an average 3.5% of GDP. Additionally, the pandemic has made it difficult for African economies to focus on fiscal consolidation as governments try to cushion the populous with much-needed stimulus packages.

The table below summarizes the various Eurobond issued in 2020:

Country	Amount Issued USD millions	Issue Tenor (yrs)	Issue Date	Maturity Date	Coupon	Yield at Issue Date	Subscription Rate	Yield as at 31st Dec 2021	Issue date to 31st Dec Yield Change(% points)
Ghana	1,250.0	7	11/2/2020	11/2/2027	6.4%	6.3%	4.7x	5.5%	(0.8%)
Ghana	1,000.0	15	11/2/2020	11/2/2035	7.9%	7.9%		7.6%	(0.4%)
Ghana	750.0	41	11/2/2020	11/3/2061	8.8%	8.7%		8.5%	(0.2%)
Gabon	1,000.0	11	6/2/2020	6/2/2031	6.6%	6.4%	3.5x	6.2%	(0.2%)
Ivory Coast	1,191.0	12	30/11/2020	30/1/2032	4.9%	4.9%	5.0x	4.6%	(0.3%)
Total	**5,191.0**						**4.4x**		
2019 Issues	**5,667.0**						**4.6x**		

Key take-outs:

i. The region's 2020 issues raised USD 5.2 bn, compared to USD 5.7 bn raised in 2019, a decline of 8.8%, due to the reluctance of regional governments to tap into the market in a period characterised by heavy outflows recorded by emerging market funds as investors dumped risky assets amid the coronavirus crisis, causing yields to rise and consequently making issuing more expensive for Sub-Saharan countries,

ii. The issues in 2020 recorded an average oversubscription of 4.4x. This underlines the demand by premium investors to hold riskier assets, partly because, by comparison, African sovereign debt offers the highest yields to investors globally. The oversubscription rate was however lower than 2019's issues oversubscription of 4.6x,

iii. Since issuance at the beginning of the year, the yields on the Ghanaian 7 and 15 – year Eurobonds issued in Q1'2020 decreased to 5.5% and 7.6% as at 31st December 2020 respectively, from the 6.3% and 7.9% recorded at issue. The yield on the 41-year Eurobond declined to 8.5% as at 31st December 2020, from the 8.7% recorded at issue. Of the three issues, the shortest term note (7-years) recorded the highest decline of 0.8% points, indicating that investors are attaching a lower risk premium to the short-term prospects of Ghana's economy, boosted by the IMF's forecasts of a recovery in 2021 to a GDP growth of 4.2% compared to a growth of 0.9% projected in 2020 coupled with a forecasted narrowing of the fiscal deficit to -9.3% of GDP in 2021 from -16.4 projected in 2020, and,

iv. The Ivory Coast's 12-year issue was priced at a historical record-low yield for regional issuers of 4.9% and still recorded the highest oversubscription rate of 5.0x in 2020. This is attributed to investors' hunt for high yields following massive monetary easing in developed markets, which unlocked liquidity in financial markets and consequently resulted in declining yields. The low supply of Sub-Saharan Eurobonds in the market also contributed to the oversubscription, with Ivory Coast being the first Sub-Saharan African Eurobond issuer in 9 months. The oversubscription of Ivory Coast's issue highlights the high appetite for Sub-Saharan Eurobonds in 2020, with the issue recording the highest oversubscription despite the country issuing the Eurobond on the back of a contested election, where the incumbent Alassane Ouattara got elected for a third consecutive term in spite of the constitution setting a two-term limit. Key to note, the country is still recovering from a civil war sparked by a disputed election in 2010. The country is however supported by a low debt to GDP ratio, projected at 41.7% in 2020, which is 23.9% points lower than the region's projected ratio of 65.6%.

For further information on the Q3’2020 and H1’2020 issues, see our Q3'2020 SSA Eurobond Performance Note and H1’2020 SSA Eurobond Performance Note

I. Analysis of Existing Issues

Yields on African Eurobonds generally declined in 2020 due to increased demand as investors sought higher yields during the last quarter. Key to note is that there was a spike recorded during Q2’2020 due to the heavy outflows recorded by emerging market funds as a result of investor aversion towards the region. The flight by investors stemmed from worsening of pre-existing vulnerabilities such as high debt to GDP ratios. According to the IMF’s Regional Economic Outlook: Sub-Saharan Africa, the region’s public debt is projected to reach 65.6% of GDP in 2020, a 9.2% points increase from pre-COVID-19 levels which stood at 56.4%, with the largest increase in debt being in oil-exporting countries, whose average projected debt to GDP ratio for 2020 came in at 68.5%, an 18.1% increase from pre-COVID projections, which stood at 50.4%, attributed to decreased demand and global prices of oil, on which these countries are heavily reliant on. Yields on the Zambia’s 10-year 2022 and 2024 issues were the only ones to record a rise in our select Eurobond coverage during the year, attributable to the exodus of foreign investors as the country failed to honour its service obligations of a USD 42.5 mn Eurobond coupon in November. The country is struggling with high debt levels. Zambia’s debt to GDP ratio is estimated at 120.0% in 2020 by the IMF, further confirming fears of a debt crisis in the country. The Government of Zambia’s debt was downgraded by Fitch Ratings in September 2020 to C from CC.

Yields on select African Eurobonds as indicated in the table below, recorded mixed performance in 2020 after a sharp increase in H1’2020. The SSA region had experienced a high degree of risk aversion, before capital inflows recovered in Q4’2020 as investors sought higher yields.

Yield Changes in Select SSA Eurobonds Issued Before 2020							
Country	Issue Tenor (yrs)	Issue Date	Maturity Date	Coupon	Yield as at Year Open 2020	Yield as at December 2020	Y/y change (%Points)
Zambia	12	30/7/2015	30/7/2027	9.0%	17.0%	12.2%	**(4.9%)**
Kenya	12	23/05/2019	23/05/2032	8.0%	6.9%	5.9%	**(1.0%)**
Kenya	10	24/6/2014	24/6/2024	6.9%	4.8%	3.9%	**(0.9%)**
Nigeria	12	23/2/2018	23/2/2030	7.1%	6.9%	6.0%	**(0.9%)**
Senegal	10	13/5/2011	13/5/2021	8.8%	2.5%	1.7%	**(0.9%)**
Ghana	10	8/7/2013	8/7/2023	7.9%	5.0%	4.1%	**(0.9%)**
Kenya	8	22/5/2019	22/5/2027	7.0%	5.6%	4.9%	**(0.7%)**
Senegal	30	13/3/2018	13/3/2048	4.8%	6.7%	6.0%	**(0.7%)**
Kenya	10	28/2/2018	28/2/2028	7.3%	5.9%	5.2%	**(0.7%)**
Nigeria	30	28/11/2017	28/11/2047	7.6%	7.8%	7.2%	**(0.7%)**
Kenya	30	28/2/2018	28/2/2048	8.3%	7.7%	7.0%	**(0.6%)**
Benin	6	26/03/2019	26/03/2026	5.8%	4.8%	4.3%	**(0.5%)**
Senegal	10	30/7/2014	30/7/2024	6.3%	3.7%	3.3%	**(0.5%)**
Ghana	6	15/9/2016	15/9/2022	9.3%	3.8%	3.3%	**(0.5%)**
Ghana	31	16/5/2018	16/6/2049	8.6%	8.7%	8.4%	**(0.2%)**
Ghana	31	26/03/2019	26/03/2051	9.0%	8.7%	8.6%	**(0.2%)**
Zambia	10	14/4/2014	14/4/2024	8.5%	19.6%	20.4%	**0.8%**
Zambia	10	20/9/2012	20/9/2022	5.4%	21.5%	42.5%	**21.0%**

From the table above,

a) Yields on most of the Sub-Saharan Eurobonds declined in 2020 attributable to high demand for regional issues coupled with low supply of issuances, and,
b) Zambia recorded the only increase in Eurobond yields, with the 10-year instruments for both the 2014 and 2012 issues increasing by 0.8% and 21.0% points respectively, while the yield on the 12-year bond issued in 2015 decreased by 4.9% points. This makes Zambia's 10-year Eurobonds the worst performing in Sub Saharan Africa, due to concerns of a widening fiscal deficit and deteriorating credit worthiness on the back of a default after missing a USD 42.5 mn coupon payment on its 2024 note. The country is currently in negotiations with the IMF over the appropriate policy instrument to help manage its public debt. Zambia's increasing debt levels, estimated at 120.0% of GDP, coupled with the 50.4% depreciation of the Kwacha YTD presents the risk of rising debt-service costs for the economy, hence necessitating demands for a higher premium on sovereign debt issued by the country. On the other hand, the yield on the 12-year issue was the largest decliner in the region, signifying investor confidence of a recovery in Zambia's debt profile in the long term, supported by international institutions such as the IMF.

Since Eurobonds are denominated in foreign currency, the depreciation of a country's local currency means that they will incur a relatively higher cost to purchase foreign currency used to service outstanding debt obligations. Below is a summary of the performance of the different resident currencies for 2020:

Select Sub Saharan Africa Currency Performance vs USD					
Currency	**Dec-18**	**Dec-19**	**Dec-20**	**2019 y/y change (%)**	**2020 y/y change (%)**
Ugandan Shilling	3699.3	3660.0	3647.0	**1.1%**	**0.4%**
Tanzanian Shilling	2295.0	2293.0	2314.0	**0.1%**	**(0.9%)**
Botswana Pula	10.7	10.6	10.8	**1.3%**	**(2.3%)**
Ghanaian Cedi	4.8	5.7	5.8	**(17.4%)**	**(3.2%)**
Malawian Kwacha	719.8	729.1	763.2	**(1.3%)**	**(4.7%)**
South African Rand	14.3	14.0	14.7	**2.5%**	**(5.0%)**
Kenyan Shilling	101.8	101.3	109.2	**0.5%**	**(7.7%)**
Mauritius Rupee	34.2	36.2	39.6	**(6.0%)**	**(9.3%)**
Nigerian Naira	307.0	306.0	380.7	**0.3%**	**(24.4%)**
Zambian Kwacha	11.9	14.1	21.1	**(18.1%)**	**(50.4%)**

All select currencies depreciated against the US Dollar in 2020, apart from the Ugandan Shilling, which gained by 0.4%, supported by subdued appetite for hard currency among commercial banks and importers in the manufacturing, telecommunications and energy sectors. The Zambian Kwacha was the worst performer for the third year running, depreciating by 50.4% against the dollar, attributable to low copper production, low commodity prices arising from subdued demand and high demand for hard currency from investors and the government as it sought to meet its debt repayment obligations. The Kenya Shilling depreciated by 7.7% in 2020 to close at Kshs 109.2 against the US Dollar, compared to Kshs 101.3 recorded at the end of 2019, driven by the decline in dollar receipts from dollar-earning sectors such as tourism and horticulture in addition to high demand for hard currency from investors.

Section III: Outlook on SSA Eurobonds

From the analysis, most of the Eurobond yields in Sub-Saharan Africa declined in 2020, attributable to increased investor appetite for Sub-Saharan issues in a low-interest rate environment, coupled with subdued supply of the region's issues. The decline was as a result of a readjustment in Q4'2020, with the region's Eurobond market recovering from the spike recorded in Q2'2020 and Q3'2020. Notably, African debt has been on the rise mainly due to a shortfall in revenue collection as a result of disruptions caused by containment measures and a slowdown in commodity prices, which has affected revenue generation as most African countries are commodity-driven. To plug in the budget deficit, most countries had been forced to seek concessional funding to raise funds to fund their budget deficits as well as refinance existing debt obligations. This is because despite the recovery in the region's Eurobond market, the Eurobond window for Sub-Saharan Africa was effectively closed in Q2'2020 and Q3'2020 given the steep rise in yields caused by investors' flight to safe havens during the period of uncertainty, which made it expensive to enter the market at the time. Countries such as Kenya, Nigeria, Ghana and South Africa were forced to shelve plans to issue Eurobonds in 2020 due to the unfavourable market conditions. There are a few points to note:

a) **Public debt**- The COVID-19 pandemic has elevated the debt distress of most economies, with most governments now faced with the dilemma of whether to satisfy creditors or spend money on public health and on bailing out the economy, a situation that may lead to debt defaults. Zambia, for instance, became the first African country to default on its debt in the COVID-19 era after missing a USD 42.5 mn coupon payment on its 2024 note. According to the IMF's Regional Economic Outlook: Sub-Saharan Africa, the region's public debt is projected to be 65.6% of GDP in 2020, a 9.2% points increase from pre-COVID-19 levels which stood at 56.4%. The pandemic has exposed macroeconomic vulnerabilities in the region, with most countries recording declines in revenue collection, export revenues and diaspora remittances as well as depreciation of local currencies thus elevating the region's debt challenges. As such, as the pandemic continues to have a grip on the region's economic growth, with most governments being necessitated to borrow further to plug in fiscal deficits,

b) **Debt Sustainability**: According to the World Bank's Africa's Pulse October 2020, SSA's public debt is projected to rise further to 67.4% of GDP in 2021. Most African countries have resorted to expensive sources of financing as evidenced by the increased uptake of sovereign bonds as opposed to concessional loans, attributable to liquidity problems stemming from the global financial crisis and European debt crisis. Debt sustainability in the region continues to be a major concern given the high debt burden as well as the change in the composition of the region's public debt profile to sovereign bonds. Countries with higher debt service and riskier debt profiles are expected to face debt sustainability issues. According to the IMF's Regional Economic Outlook, the debt service to revenue ratios of the region are projected at 32.3% in 2020, a 10.4% points increase from 21.9% pre-COVID-19. This is due to significant shortfalls in revenue collection and depreciating local currencies which in turn make debt servicing more expensive. As the pandemic continues to affect the region's economic growth, we project further deterioration of the SSA's debt sustainability, and,

c) **Subdued Economic Growth**- Sub-Saharan Africa is set for its first recession in 27 years, with the World Bank projecting economic activity in the region to contract by 3.3% with growth expected to rebound back to 2.1% by 2021, assuming the effects of the pandemic begin fading off in 2021. The World Bank expects the region to be heavily affected given the region's weak healthcare systems. The continent, however, bucked the predictions of a severe outbreak due to timely containment measures coupled with a relatively youthful population, with only 3.0% of the region's population being above 65 years. The measures to curb the spread of the virus such as lockdowns, social distancing and self-isolation however negatively affected the economy, with workers in the informal sector being the hardest hit. Most Sub-Saharan economies do not have much wriggle in deploying fiscal policy to cushion economies, and as such, fiscal positions are likely to deteriorate even further.